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SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

March 6, 1970

SUPPLEMENTAL NOTES

The Domestic Economy

Industrial production. Preliminary employment data for February, which show widespread declines in manufacturing employment and average hours worked, now indicate a further decline in industrial production of over one-half per cent rather than the little change as reported in the Greenbook. Output of durable manufacturers, which had fallen off 6 per cent through January, dropped further in February. Production of nondurable manufacturers, which had been maintained at record levels from July to January, also declined.

Auto sales and production. Sales of new domestic autos rose sharply in the last selling period of February, mainly because of the introduction of two new models and early sales contests, and for the month as a whole were at an annual rate of 7.9 million units, 16 per cent above a month ago and 10 per cent below a year earlier.

Seasonally adjusted dealers' stocks at the end of February declined 5.5 per cent further and were 10 per cent below a year earlier and 13 per cent below the October peak.

Production schedules have been raised 6 per cent in March to a 6.9 million unit rate and in the first week of this month output has been at that level. Trade reports indicate that assembly schedules for the second quarter will be increased, and one source suggests a rise to an annual rate of 8 million units. Part of this increase is attributed to expectations of the usual spring rise in sales, but the possibility of a strike in the auto industry after midyear may be an important motivation.

Consumer credit. Consumer instalment credit outstanding increased at a seasonally adjusted annual rate of \$4.6 billion in January, the smallest monthly advance in more than 2 years. As in December, the increase was centered in nonautomotive consumer goods and personal loans; auto credit was up slightly after a small decline in December. Noninstalment credit rose at a \$2.6 billion seasonally adjusted annual rate in January, the largest increase registered for this type of credit since last May. Substantial increases occurred in both single-payment loans and charge accounts.

On a seasonally adjusted basis, extensions of instalment credit rose moderately in January after 4 consecutive monthly declines, but were still below the average of the three most recent quarters. Repayments of instalment debt, which had changed little since last spring, advanced to a new high. Credit extended for auto purchases remained near the 2-year low reached in December, reflecting continued slack demand. On the other hand, extensions for purchases of other consumer goods increased considerably and personal loans rose moderately.

CONSUMER INSTALMENT CREDIT EXTENDED AND REPAID
(Seasonally adjusted annual rates, in billions of dollars)

	Extended	Repaid	Net Change
1969: QI	100.7	92.3	8.3
QII	104.4	94.8	9.6
QIII	103.5	95.8	7.7
QIV	102.5	95.7	6.8
1970: January	102.3	97.7	4.6

Labor market. Substantial further weakening in labor demand was evident in the employment and unemployment data for February. Employment and hours of work in manufacturing declined sharply, while the unemployment rate jumped to 4.2 per cent, its highest level since October 1965. Reflecting mounting weakness in the industrial sector, unemployment among manufacturing wage and salary workers--mainly in blue-collar occupations--continued to climb rapidly. The rise in unemployment occurred exclusively among adults, with men and women contributing about equally. The marked increase in the rate for adult men--to 2.8 per cent--was preceded by a comparable increase in January.

SELECTED UNEMPLOYMENT RATES
(Seasonally adjusted)

	1969	1970	
	February	January	February
Total	3.3	3.9	4.2
Males, aged 20 and over	1.9	2.5	2.8
Females, aged 20 and over	3.6	3.6	4.1
16 to 19 years, total	12.0	13.8	13.4
White	3.0	3.6	3.8
Negro and other races	5.9	6.3	7.0
Manufacturing workers	2.9	3.8	4.6
Blue-collar workers	3.6	4.6	5.0
State insured	2.2	2.5	2.7

Manufacturing employment declined by 158,000 in February. The drop would have been considerably larger but for the net return of more than 120,000 workers (mainly G.E.) on strike the previous month. Employment in transportation equipment declined by 146,000. Although

there were substantial layoffs at auto plants, a large part of the decline reflected temporary plant shutdowns during the survey week. Outside of transportation equipment, there were widespread relatively small declines in all but a few manufacturing industries.

The average workweek of manufacturing production workers was reduced by 0.4 hour--for the second month in a row--to 39.9 hours in February, its lowest level since January 1962. Reductions were widespread with large cuts in fabricated metals, machinery, and electrical equipment. Average overtime, at 3.2 hours, was down slightly.

Nonfarm payroll employment was little changed in February from the upward revised 70.78 million of January, largely because of employment increases in trade and construction. The latter increase was a recovery from a very low January level (which reflected in part unusually bad weather), and construction employment was still down 50,000 from December. Employment in the service industries and government remained near January levels.

NONFARM PAYROLL EMPLOYMENT
(Seasonally adjusted, in thousands)

	1970	Change from:	
	February	January	Year earlier
Total	70,766	-12	1,252
Manufacturing	19,806	-158	-259
Durable goods	11,544	-120	-295
Nondurable goods	8,262	-38	36
Construction	3,409	81	38
Trade	14,978	65	497
Government	12,425	1	309
Service and other	20,148	-1	667

The Domestic Financial Situation

INTEREST RATES

	1969		1970		
	High		High	February 9	March 5
<u>Short-Term Rates</u>					
Federal funds (weekly averages)	9.61 (9/24)		9.39 (2/18)	9.21 (2/4)	8.32(3/4)
3-months					
Treasury bills (bid)	8.03 (12/29)		7.93 (1/16)	7.30	6.88
Bankers' acceptances	8.62 (12/15)		8.75 (1/13)	8.38	8.00
Euro-dollars	12.50 (6/10)		10.50 (1/9)	9.51	9.32
Federal agencies	8.39 (11/20)		8.30 (1/7)	8.17 (2/16)	7.27
Finance paper	8.25 (12/3)		8.33 (1/28)	8.25	8.00
CD's (prime NYC)					
Highest quoted new issues	6.00		6.75	6.75	6.75
Secondary market	9.05 (12/31)		9.10 (1/7)	8.75 (2/6)	8.25
6-month					
Treasury bills (bid)	8.09 (12/29)		7.99 (1/5)	7.43	6.78
Bankers' acceptances	8.75 (12/15)		8.88 (1/13)	8.50	8.12
Commercial paper	8.88 (10/8)		9.12 (1/8)	8.62	8.50
Federal agencies	8.58 (11/20)		8.50 (1/30)	8.38 (2/6)	7.39
CD's (prime NYC)					
Highest quoted new issue	6.25		7.00	7.00	7.00
Secondary	9.15 (12/31)		9.15 (1/7)	8.95 (2/6)	8.50
1-year					
Treasury bills (bid)	7.86 (11/24)		7.62 (1/30)	7.22	6.63
Prime municipals	6.25 (12/11)		5.60 (1/7)	5.30 (2/6)	4.40
<u>Intermediate and Long-Term</u>					
Treasury coupon issues					
5-years	8.33 (12/29)		8.30 (1/7)	8.04	7.18
20-years	7.14 (12/29)		6.98 (1/7)	6.65	6.62
Corporate					
Seasoned Aaa	7.91 (12/31)		7.97 (2/12)	7.97	7.79
Baa	8.91 (12/31)		8.96 (1/7)	8.80	8.60
New Issue Aaa					
No call protection	7.80 (6/20)		--	--	--
Call protection	8.85 (12/5)		8.63 (2/6)	8.63 (2/6)	8.25
Municipal					
Bond Buyer Index	6.90 (12/19)		6.79 (1/2)	6.54 (2/6)	6.00
Moody's Aaa	6.57 (12/26)		6.52 (1/2)	6.28 (2/6)	5.85
Mortgage--implicit yield					
in FNMA biweekly auction <u>1/</u>	8.87 (12/29)		9.36 (1/2)	9.28	9.25(2/24)

1/ Yield on 6-month forward commitment after allowance for commitment fee and required purchase and holding of FNMA stock. Assumes discount on 30-year loan amortized over 15 years.

International Developments

The Bank of England lowered its discount rate Thursday, March 5, from 8 to 7-1/2 per cent. It was the first change in Bank Rate since February 27, 1969, when it was raised from 7 to 8 per cent.

The Bank's action reflects in part an attempt to slow the exceptionally heavy flow of funds into sterling dating from the end of February. The authorities may have feared that the recent inflow was abnormally high and could be quickly reversed. However, the almost continuously strong demand for sterling since last September has permitted Britain to make substantial repayments of its outstanding short- and medium-term external debt.

The sharp increase in the demand for sterling in the week preceding the Bank Rate reduction was a consequence of a sudden, steep increase in short-term interest rates in Britain. For example, the yield on 90-day local authority deposits jumped from 9-1/8 per cent on February 26 to 10-1/4 per cent on March 4.

The upward spurt in short-term rates stems from the liquidity squeeze on British business. Constantly hard-pressed for cash because of the ceiling on bank lending and the import deposit scheme, British firms are under particularly severe pressure now because corporate tax payments come due in the first quarter.

Though the timing of the cut in the discount rate may have been influenced by recent inflows, a reduction would probably have been made soon in any case. With the balance of payments now in substantial surplus, the authorities are in a position to encourage the industrial

capital investment so vital to enduring improvement in Britain's competitive position. An easing of monetary policy will stimulate investment, and the lowering of Bank Rate appears to be a signal that the authorities are now taking at least a short step in the direction of reduced monetary stringency.

The Bundesbank announced on March 6 that effective Monday, March 9, the German discount rate will be raised from 6 to 7-1/2 per cent. This is the largest increase in the rate in the postwar period. The new effective rate is also the highest since the establishment of the Bundesbank in 1948.

Correction:

Page II - 29. The first sentence of the last paragraph on wholesale prices should read, "Meat prices declined in February, but prices of livestock--which were about 10 per cent above a year earlier in January--rose further."

SUPPLEMENTAL APPENDIX A: SURVEY OF BANK LENDING PRACTICES,
FEBRUARY 1970*

About three-fourths of the respondents in the February 15 Bank Lending Practices Survey indicated that the strength of loan demand remained generally unchanged during the previous three months (Table 1). Only about 10 per cent of the banks expected a strengthening of loan demand in the next three months (compared with more than 30 per cent in the prior survey) while nearly 20 per cent anticipated some weakening.

Terms and conditions on loans to nonfinancial business remained essentially unchanged during the past three months at about two-thirds of the responding banks and were generally tightened further at the rest of the banks. For example, nearly a third of the banks reported higher interest rates and more stringent compensating balance requirements in the current survey, and a fifth indicated stricter standards with regard to credit worthiness and the maturity of term loans. Established and local service area customers generally received the same treatment as in prior months--although about 20 per cent of the banks did tighten lending terms to these borrowers--while new and nonlocal service area customers continued to receive closer scrutiny. On average one-fourth of the respondents also indicated that such factors as the intended use of the loan and the value of the loan applicant as a collateral source of business were being considered more carefully when reviewing credit applications.

Lending terms and conditions to "noncaptive" finance companies remained essentially unchanged from three months ago at 70-80 per cent of the banks. The remaining banks typically raised interest rates on such loans, tightened and increasingly enforced compensating balance requirements, and were less willing to establish new or larger credit lines.

Also, about 75-80 per cent of participating banks reported that their willingness to make certain other types of loans had not changed greatly during the previous three months while the rest were less willing to make such loans. This increased reluctance was slightly more pronounced in mortgage loans and term loans to businesses than in other categories.

There was little size of bank variation in responses regarding the strength of current or future loan demand (Table 2). However, a somewhat larger proportion of smaller banks (with deposits

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of less than \$1 billion) tightened lending terms and conditions further than of larger banks (with deposits of \$1 billion or more). This was particularly evident with regard to credit lines or loan applications for new and nonlocal business borrowers, the intended use of business loans, and compensating balance requirements as well as credit lines of finance companies. Smaller banks also were noticeably less willing to make most other types of loans.

Banks generally reported that the recurring response of "essentially unchanged" did not indicate any weakening in credit policy, but a continuation of the restrictive policies which evolved over the past year (Table 2A). Deposit shrinkage and weak liquidity positions accounted for this continued tight policy. Several banks also reported that they were restricting lending policies further pending a final pronouncement on the commercial paper issue.

QUARTERLY SURVEY OF CHANGES IN BANK LENDING PRACTICES
 AT SELECTED LARGE BANKS IN THE U.S. 1/
 (STATUS OF POLICY ON FEBRUARY 15, 1970 COMPARED TO THREE MONTHS EARLIER)
 (NUMBER OF BANKS & PERCENT OF TOTAL BANKS REPORTING)

	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	125	100.0	2	1.6	12	9.6	95	76.0	15	12.0	1	0.8
ANTICIPATED DEMAND IN NEXT 3 MONTHS	125	100.0	0	0.0	14	11.2	87	69.6	23	18.4	1	0.8
	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	125	100.0	8	6.4	36	28.8	80	64.0	1	0.8	0	0.0
COMPENSATING OR SUPPORTING BALANCES	125	100.0	8	6.4	40	32.0	77	61.6	0	0.0	0	0.0
STANDARDS OF CREDIT WORTHINESS	125	100.0	7	5.6	21	16.8	97	77.6	0	0.0	0	0.0
MATURITY OF TERM LOANS	125	100.0	6	4.8	16	12.8	103	82.4	0	0.0	0	0.0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	125	100.0	1	0.8	23	18.4	100	80.0	1	0.8	0	0.0
NEW CUSTOMERS	125	100.0	19	15.2	26	20.8	78	62.4	2	1.6	0	0.0
LOCAL SERVICE AREA CUSTOMERS	125	100.0	0	0.0	19	15.2	105	84.0	1	0.8	0	0.0
NONLOCAL SERVICE AREA CUSTOMERS	124	100.0	20	16.1	19	15.3	85	68.6	0	0.0	0	0.0

1/ SURVEY OF LENDING PRACTICES AT 125 LARGE BANKS REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF FEBRUARY 15, 1970.

	ANSWERING QUESTION		MUCH FIRMER POLICY		MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	124	100.0	13	10.5	24	19.4	87	70.1	0	0.0	0	0.0
INTENDED USE OF THE LOAN	125	100.0	12	9.6	15	12.0	98	78.4	0	0.0	0	0.0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	124	100.0	4	3.2	15	12.1	104	83.9	1	0.8	0	0.0
COMPENSATING OR SUPPORTING BALANCES	124	100.0	6	4.8	21	16.9	97	78.3	0	0.0	0	0.0
ENFORCEMENT OF BALANCE REQUIREMENTS	124	100.0	8	6.5	30	24.2	86	69.3	0	0.0	0	0.0
ESTABLISHING NEW OR LARGER CREDIT LINES	124	100.0	20	16.1	20	16.1	84	67.8	0	0.0	0	0.0
	ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT	BANKS	PCT
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	125	100.0	8	6.4	19	15.2	98	78.4	0	0.0	0	0.0
CONSUMER INSTALMENT LOANS	124	100.0	3	2.4	20	16.1	100	80.7	1	0.8	0	0.0
SINGLE FAMILY MORTGAGE LOANS	122	100.0	8	6.6	17	13.9	96	78.7	1	0.8	0	0.0
MULTI-FAMILY MORTGAGE LOANS	119	100.0	11	9.2	15	12.6	93	78.2	0	0.0	0	0.0
ALL OTHER MORTGAGE LOANS	122	100.0	14	11.5	15	12.3	91	74.6	2	1.6	0	0.0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	123	100.0	4	3.3	10	8.1	108	87.8	0	0.0	1	0.8
LOANS TO BROKERS	122	100.0	8	6.6	17	13.9	97	79.5	0	0.0	0	0.0

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2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

COMPARISON OF QUARTERLY CHANGES IN BANK LENDING PRACTICES AT BANKS GROUPED BY SIZE OF TOTAL DEPOSITS 1/
 (STATUS OF POLICY ON FEBRUARY 15, 1970, COMPARED TO THREE MONTHS EARLIER)
 (NUMBER OF BANKS IN EACH COLUMN AS PER CENT OF TOTAL BANKS ANSWERING QUESTION)

	SIZE OF BANK — TOTAL DEPOSITS IN BILLIONS											
	TOTAL		MUCH STRONGER		MODERATELY STRONGER		ESSENTIALLY UNCHANGED		MODERATELY WEAKER		MUCH WEAKER	
	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1
STRENGTH OF DEMAND FOR COMMERCIAL AND INDUSTRIAL LOANS (AFTER ALLOWANCE FOR BANK'S USUAL SEASONAL VARIATION)												
COMPARED TO THREE MONTHS AGO	100	100	0	3	9	10	82	72	9	14	0	1
ANTICIPATED DEMAND IN NEXT 3 MONTHS	100	100	0	0	11	12	66	72	23	15	0	1
LENDING TO NONFINANCIAL BUSINESSES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	4	8	28	29	66	63	2	0	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	4	8	30	33	66	59	0	0	0	0
STANDARDS OF CREDIT WORTHINESS	100	100	2	8	21	14	77	78	0	0	0	0
MATURITY OF TERM LOANS	100	100	0	8	17	10	83	82	0	0	0	0
REVIEWING CREDIT LINES OR LOAN APPLICATIONS												
ESTABLISHED CUSTOMERS	100	100	0	1	17	19	83	79	0	1	0	0
NEW CUSTOMERS	100	100	13	17	13	26	72	56	2	1	0	0
LOCAL SERVICE AREA CUSTOMERS	100	100	0	0	13	17	87	82	0	1	0	0
NONLOCAL SERVICE AREA CUSTOMERS	100	100	9	21	20	13	71	66	0	0	0	0

1/ SURVEY OF LENDING PRACTICES AT 47 LARGE BANKS (DEPOSITS OF \$1 BILLION OR MORE) AND 78 SMALL BANKS (DEPOSITS OF LESS THAN \$1 BILLION) REPORTING IN THE FEDERAL RESERVE QUARTERLY INTEREST RATE SURVEY AS OF FEBRUARY 15, 1970.

	NUMBER ANSWERING QUESTION		SIZE OF BANK MUCH FIRMER POLICY		-- TOTAL DEPOSITS IN BILLIONS MODERATELY FIRMER POLICY		ESSENTIALLY UNCHANGED POLICY		MODERATELY EASIER POLICY		MUCH EASIER POLICY	
	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1
FACTORS RELATING TO APPLICANT 2/												
VALUE AS DEPOSITOR OR SOURCE OF COLLATERAL BUSINESS	100	100	2	15	24	17	74	68	0	0	0	0
INTENDED USE OF THE LOAN	100	100	4	13	9	14	87	73	0	0	0	0
LENDING TO "NONCAPTIVE" FINANCE COMPANIES												
TERMS AND CONDITIONS:												
INTEREST RATES CHARGED	100	100	0	5	15	10	83	85	2	0	0	0
COMPENSATING OR SUPPORTING BALANCES	100	100	0	8	11	21	89	71	0	0	0	0
ENFORCEMENT OF BALANCE REQUIREMENTS	100	100	2	9	15	29	83	62	0	0	0	0
ESTABLISHING NEW OR LARGER CREDIT LINES	100	100	7	22	17	15	76	63	0	0	0	0
	NUMBER ANSWERING QUESTION		CONSIDERABLY LESS WILLING		MODERATELY LESS WILLING		ESSENTIALLY UNCHANGED		MODERATELY MORE WILLING		CONSIDERABLY MORE WILLING	
	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1	\$1 & OVER	UNDER \$1
WILLINGNESS TO MAKE OTHER TYPES OF LOANS												
TERM LOANS TO BUSINESSES	100	100	4	8	6	21	90	71	0	0	0	0
CONSUMER INSTALMENT LOANS	100	100	0	4	15	17	83	79	2	0	0	0
SINGLE FAMILY MORTGAGE LOANS	100	100	2	9	7	18	89	73	2	0	0	0
MULTI-FAMILY MORTGAGE LOANS	100	100	4	12	7	16	89	72	0	0	0	0
ALL OTHER MORTGAGE LOANS	100	100	7	14	4	17	87	68	2	1	0	0
PARTICIPATION LOANS WITH CORRESPONDENT BANKS	100	100	0	5	4	11	96	83	0	0	0	1
LOANS TO BROKERS	100	100	0	11	13	15	87	74	0	0	0	0

2/ FOR THESE FACTORS, FIRMER MEANS THE FACTORS WERE CONSIDERED MORE IMPORTANT IN MAKING DECISIONS FOR APPROVING CREDIT REQUESTS, AND EASIER MEANS THEY WERE LESS IMPORTANT.

Table 2A

NET RESPONSES OF BANKS IN LENDING PRACTICES SURVEYS
(In per cent)

	Feb. 1968	May 1968	Aug. 1968	Nov. 1968	Feb. 1969	May 1969	Aug. 1969	Nov. 1969	Feb. 1970
Strength of loan demand ^{1/} (compared to 3 months ago)	-8.0	64.8	-2.4	25.6	54.4	60.0	30.6	28.0	-1.6
Anticipated demand in next 3 months	50.0	66.4	--	20.8	49.2	41.8	5.7	8.9	-8.0
<u>LENDING TO NONFINANCIAL BUSINESSES^{2/}</u>									
Terms and Conditions									
Interest rates charged	34.4	93.6	0.8	-27.2	86.2	91.0	78.3	49.6	34.4
Compensating or supporting balances	16.1	56.8	4.8	10.4	64.3	75.6	68.3	57.6	38.4
Standards of credit worthiness	7.3	32.8	4.8	4.8	32.8	41.4	40.6	36.0	22.4
Maturity of term loans	1.6	32.8	1.6	1.6	30.3	42.3	42.2	35.2	17.6
Reviewing Credit Lines									
Established customers	-0.8	28.0	-5.6	-1.6	32.5	47.2	51.6	36.8	18.4
New customers	10.5	64.8	-5.6	6.4	61.7	80.2	81.4	60.8	34.4
Local service area customers	2.5	30.0	-5.6	-4.1	30.9	46.7	48.8	32.0	14.4
Nonlocal service area customers	11.6	56.9	10.6	15.4	49.5	71.3	68.8	56.5	31.4
Factors Relating to Applicant (Net percentage indicating more important)									
Value of depositor as source of business	19.2	54.4	12.8	16.0	58.6	67.2	65.0	46.0	29.9
Intended use of loan	12.0	44.4	8.1	6.4	54.5	71.6	68.5	39.2	21.6
<u>LENDING TO NONCAPTIVE FINANCE COMPANIES^{2/}</u>									
Terms and Conditions									
Interest rates charged	22.4	60.5	2.4	-26.4	53.3	50.8	48.0	19.3	14.5
Compensating or supporting balances	5.6	25.0	2.4	2.4	22.9	27.9	35.0	26.7	21.7
Enforcement of balance requirements	12.8	32.3	8.1	3.2	29.5	42.6	42.3	34.7	30.7
Establishing new or larger credit lines	7.2	53.2	15.3	4.8	54.9	62.4	62.0	48.4	32.2
<u>WILLINGNESS TO MAKE OTHER LOANS^{3/}</u>									
Term loans to businesses	-4.0	49.6	4.8	-0.8	48.8	64.3	65.9	48.0	21.6
Consumer instalment loans	-22.6	-0.8	-11.3	-15.3	4.2	17.2	26.9	24.2	17.7
Single-family mortgage loans	-4.9	32.0	14.1	-3.3	30.8	45.5	49.7	30.4	19.7
Multi-family mortgage loans	7.4	36.4	8.2	4.1	40.1	57.5	58.3	36.3	21.8
All other mortgage loans	--	43.4	3.4	1.7	42.5	62.0	62.5	42.3	22.2
Participation loans with correspondent banks	8.8	16.0	1.6	--	18.7	38.4	48.4	31.5	10.6
Loans to brokers	1.6	23.4	6.5	1.6	34.2	40.0	59.3	36.1	20.5

^{1/} Per cent of banks reporting stronger loan demand minus per cent of banks reporting weaker loan demand. Positive number indicates net stronger loan demand, negative number indicates net weaker loan demand.

^{2/} Per cent of banks reporting firmer lending policies minus per cent of banks reporting weaker lending policies. Positive number indicates net firmer lending policies, negative indicates net easier lending policies.

^{3/} Per cent of banks reporting less willingness to make loans minus per cent of banks more willing to make loans. Positive number indicates less willingness, negative number indicates more willingness.

SUPPLEMENTAL APPENDIX B: SURVEY OF BANK LOAN COMMITMENTS,
JANUARY 1970*

According to the January 31 Survey of Bank Loan Commitments, new commitments extended in the preceding three months by 43 major money market banks amounted to \$13.8 billion, close to the \$13 billion total reported in the prior survey (Table 1). Both recent surveys show new commitments sharply below the \$19-20 billion level indicated in earlier surveys last year. The moderate volume of new commitments in the latest survey was evident in virtually every loan category. The small increase in total new commitments over those in the previous survey went largely to commercial and industrial firms in the form of revolving credits.

The continued relatively low level of new commitments is consistent with the restrictive commitment policies reported by banks in the January survey (Table 2). About three-fifths of the banks indicated that they were maintaining tight policies initiated last year, while the balance firmed these policies somewhat further. And, as in the past three surveys, banks that tightened their commitment policies gave reduced availability of funds as the primary reason, although a few also stated that increased loan demand played a part in the policy change (Table 3).

Takedowns, expirations, and cancellations of commitments (hereafter referred to simply as takedowns) dropped sharply further in the three months covered by the recent survey. This decline resulted entirely from a reduction in takedowns by commercial and industrial firms, particularly with regard to revolving credits and confirmed lines of credit. Takedowns by finance companies and for nonresidential mortgages both were substantially greater than those reported in the prior survey. However, since the survey is relatively new, we are unable to judge the extent to which these changes may have reflected seasonal influences.

Unused commitments rose sharply on balance during the period covered by the recent survey, as new commitments exceeded takedowns. On January 31, 1970, total unused commitments at these 43 respondent banks were nearly \$63 billion, or about \$7.5 billion more than was reported in the prior survey.

* Prepared by Joseph Burns, Economist, Banking Section, Division of Research and Statistics.

QUARTERLY SURVEY OF BANK LOAN COMMITMENTS
AT SELECTED LARGE U. S. BANKS 1/

Table 1: NEW AND UNUSED COMMITMENTS
(Billions of dollars, not seasonally adjusted)

	New commitments made during 3-months ending			Takedowns, expirations, and cancellations during 3-months ending			Unused Commitments			Outstanding on Jan. 31, 1970
	July 31	Oct. 31	Jan. 31	July 31	Oct. 31	Jan. 31	Change during 3-months ending			
							July 31	Oct. 31	Jan. 31	
Grand total commitments	19.1	13.0	13.8	19.4	9.7	6.4	- .3	3.2	7.4	62.7
Total-Comm. & Indust.	15.4	9.8	10.4	15.7	8.2	1.8	- .3	1.6	8.6	50.8
Total-Nonbank Finan. Institutions	2.7	2.1	2.3	2.6	.6	3.0	.1	1.5	- .8	9.1
Total-Real Estate Mortgages	1.0	1.0	1.1	1.2	1.0	1.6	- .1	<u>3/</u>	- .5	2.9
MEMO: Const. Loans (Included above)	.9	.7	.8	.8	1.1	1.1	<u>3/</u>	- .4	- .4	2.3
Total-Comm. & Indust. Term Loans	1.1	.7	.7	1.3	1.0	1.2	- .2	- .3	- .5	1.2
Revolving Credits	3.2	2.5	2.9	3.2	2.4	1.2	<u>3/</u>	.1	1.7	13.3
Total Term & Revolving <u>2/</u> Confirmed Lines of Credit	4.5	3.3	3.7	4.6	3.4	2.6	- .1	- .1	1.5	15.5
Other Commitments	10.2	6.1	6.3	10.6	4.4	1.2	- .3	1.7	7.4	33.4
Total-Nonbank Finan. Institutions	.7	.4	.4	.5	.4	.7	.2	.1	- .3	1.8
Finance Companies	1.7	1.1	1.3	1.6	<u>3/</u>	2.2	.2	-1.1	- .9	5.5
For Mortgage Warehousing	.5	.4	.4	.5	.4	.4	- .1	<u>3/</u>	<u>3/</u>	1.5
All other	.5	.5	.5	.4	.1	.4	.1	.4	.2	2.1
Total-Real Estate Mortgages										
Residential	.4	.4	.3	.5	.4	.5	- .1	<u>3/</u>	- .2	.9
Other	.6	.6	.8	.7	.6	1.1	<u>3/</u>	<u>3/</u>	- .3	2.0

1/ Participants in Quarterly Interest Rate Survey with total deposits of more than \$1 billion (43 banks).

2/ This item may exceed sum of previous two items because some banks report combined total only.

3/ Less than \$50 million.

Table 2: VIEWS ON COMMITMENT POLICY

	Number of Banks				
	Jan. 31 <u>1969</u>	Apr. 30 <u>1969</u>	July 31 <u>1969</u>	Oct. 31 <u>1969</u>	Jan. 31 <u>1970</u>
Total number of banks responding:	48	48	48	48	48
Unused commitments in the past					
Three months have:					
Risen rapidly	3	4	0	0	1
Risen moderately	19	19	16	5	7
Remained unchanged	17	11	21	20	18
Declined moderately	9	14	11	23	21
Declined rapidly	0	0	0	0	1
Takedowns in the past three months					
have:					
Risen rapidly	4	2	1	0	0
Risen moderately	28	26	14	13	9
Remained unchanged	15	17	28	31	30
Declined moderately	1	3	5	4	9
Declined rapidly	0	0	0	0	0
Commitment policies in the past					
three months were: <u>1/</u>					
Much more restrictive	8	26	26	12	3
Somewhat more restrictive	28	15	16	20	15
Unchanged	12	7	6	15	29
Less restrictive	0	0	0	1	0
Much less restrictive	0	0	0	0	0

Table 3: EXPLANATION OF RECENT CHANGE IN NEW COMMITMENT POLICIES AS INDICATED IN THE CURRENT SURVEY

Indicated <u>Change</u>	Number of Banks Indicating <u>Change</u>	Reasons for Change (Number of banks)		
		<u>Increased Loan Demand</u>	<u>Reduced Availability of Funds</u>	<u>Both Demand And Funds</u>
More restrictive	18	0	14	4
		<u>Decreased Loan Demand</u>	<u>Reduced Availability of Funds</u>	<u>Both Demand And Funds</u>
Less restrictive	0	0	0	0

1/ Only 47 banks responded to this item in the January 31, 1970 Survey.

SUPPLEMENTAL APPENDIX C: INTEREST RATES PAID ON SAVINGS DEPOSITS
AND SINGLE MATURITY, SMALL DENOMINATION TIME DEPOSITS
AS OF FEBRUARY 2, 1970*

Following the increase in the maximum permissible rates of interest payable by member banks on savings and other time deposits on January 21, 1970, the overwhelming majority of member banks in all Federal Reserve Districts and in all bank size classes moved immediately to the new ceilings on small denomination, single maturity time deposits. A substantial majority of banks also moved to the new 4-1/2 per cent ceiling on regular savings deposits, but the increases were less universal than for time deposits and showed more variation by District and size of bank. These are the principal conclusions derived from a special survey of the maximum rates on savings deposits and on single maturity time deposits issued in denominations of less than \$100,000 which the Reserve Banks conducted as of February 2, 1970, at the Board's request.^{1/2/} The banks surveyed were the sample of about 1,400 member banks that report regularly in the quarterly survey of interest rates on time and savings deposits--a group which includes all member banks with \$20 million or more of time and savings deposits of individuals, partnerships and corporations and a sample representation of smaller banks. These banks account for a high percentage of all time and savings deposits at member banks.

Savings deposits. Between January 21 and the February 2 survey date, three-fourths of the sample banks increased their offering rates on savings deposits above 4 per cent. At the end of last October, four-fifths of all member banks holding 95 per cent of all regular savings deposits were at the old 4 per cent ceiling. Nearly all of the banks that raised rates went to the new 4-1/2 per cent ceiling, with a few small banks that had been offering a rate below the old ceiling moving to 4 per cent. Most banks that made no change were at the old ceiling, but 7 per cent of all sample banks were still offering 3-1/2 per cent or less on savings deposits on February 2.

Both the proportion of banks raising rates on savings accounts and the proportion increasing their maximum rate to 4-1/2 per cent by February 2 varied directly with the size of bank, as shown in

* Prepared by Caroline H. Cagle, Economist, Banking Section, Division of Research and Statistics.

1/ This survey did not cover rates on multiple maturity time deposits, where the only change in ceiling rates was an increase for maturities of less than 90 days from 4 to 4-1/2 per cent.

2/ Some banks that reported no change in the maximum rate paid on savings deposits and on single maturity consumer-type time deposits as of February 2 indicated rate changes would be discussed at the next meeting of their board of directors.

Table 1. Nearly all of the largest institutions (total deposits of \$500 million and over) had increased their rate to 4-1/2 per cent. In contrast, less than two-thirds of the smallest banks (deposits of less than \$10 million) had done so, and as many as 13 per cent of the banks of this size were still paying 3-1/2 per cent or less. Banks paying these low rates, many of which were located in the middle west, held relatively little savings deposits.

Some geographic differences also were noted in the proportion of banks raising rates on savings deposits. This probably reflects a number of factors, including variations among districts in the proportions of small vs. large banks, in the degree of financial sophistication of depositors, and in the extent and intensity of competition for savings. Among Federal Reserve Districts the proportion of sample banks raising rates varied from about half in the St. Louis and Minneapolis Districts--where rates have been relatively low for some years--to nearly all in the Dallas and San Francisco Districts--where competition for savings deposits recently has been keen.

Single maturity, small denomination time deposits. Competition for small denomination time deposits, other than savings, has been so strong in recent years that nearly all banks in the country were paying the 5 per cent ceiling in late 1969. Inflows had been substantial and at the end of last October, member banks held \$45 billion of these deposits, about three-fifths as much as they held in savings deposits. Nevertheless, with increasingly higher rates being offered on competing market instruments, inflows into these deposits had slowed appreciably in 1969, and over the three months ending last October, had almost ceased.

More than nine-tenths of the sample banks reported on February 2, 1970, that they offered a small denomination, single maturity time deposit instrument with a maturity of 1 to 2 years, and four-fifths of the sample offered an instrument of this kind with a maturity of 2 years or more. Between January 21 and February 2 about nine-tenths of the sample banks offering these instruments raised their maximum rate. These banks, with few exceptions, moved to the new ceilings of 5-1/2 per cent for maturities of 1 to 2 years and to 5-3/4 per cent of maturities of 2 years and over. (See Tables 2 and 3.)

For single maturity instruments with maturities of less than 1 year--where there was no change in the ceiling rate--the sample banks continued to offer 5 per cent.

Of the issuing banks, those not taking advantage of the new higher ceilings for instruments with maturities over 1 year constituted about 10 per cent or less of the total in all size classes except the smallest (total deposits of less than \$10 million). In this size class,

26 per cent of the banks stayed with the old 5 per cent ceiling for maturities of 1 to 2 years, and 18 per cent did so for maturities of 2 years and over. These institutions, which are located for the most part in smaller communities, generally face less competition from market instruments and from other banks and savings institutions than their larger competitors.

Table 1

REGULAR SAVINGS DEPOSITS: MAXIMUM INTEREST RATE PAID
 BY MEMBER BANKS, FEBRUARY 2, 1970
 (Percentage of sample banks in each group)

Group	All sample banks	Banks raising rate since January 21, 1970			Banks not raising rate			
		Total	Maximum rate (per cent)		Total	Maximum rate (per cent)		
			4-1/2	4 or less		4	3-1/2	3 or less
All sample banks	100	77	75	2	23	16	3	4
Size group (total deposits in \$ million)								
Under 10	100	65	61	4	35	22	5	8
10-50	100	74	72	2	26	18	4	4
50-100	100	81	80	1	19	15	2	2
100-500	100	84	84	--	16	11	3	2
500-1,000	100	89	89	--	11	11	--	--
1,000 and over	100	91	91	--	9	7	2	--
Federal Reserve District								
Boston	100	75	75	--	25	24	--	1
New York	100	68	68	--	32	30	1	1
Philadelphia	100	71	58	13	29	13	3	13
Cleveland	100	79	77	2	21	16	2	3
Richmond	100	79	78 ^{1/}	1	21	21	--	--
Atlanta	100	82	82	--	18	16	2	--
Chicago	100	78	78	--	22	14	2	6
St. Louis	100	54	50	4	46	27	3	16
Minneapolis	100	47	39	8	53	29	15	9
Kansas City	100	83	83	--	17	--	13	4
Dallas	100	92	92	--	8	8	--	--
San Francisco	100	93	93	--	7	7	--	--

^{1/} Includes one bank that raised its rate to 4-1/4 per cent.

Table 2

SINGLE MATURITY TIME DEPOSITS IN DENOMINATIONS OF LESS THAN
\$100,000 WITH MATURITIES OF 1 BUT UNDER 2 YEARS:
MAXIMUM RATES PAID BY MEMBER BANKS, FEBRUARY 2, 1970
(Percentage of sample banks in each specified group)

Group	All sample banks	Banks raising rate since January 21, 1970			Banks not raising rate		
		Total	Maximum rate (per cent)		Total	Maximum rate (per cent)	
			5-1/2	5 or less		5	4-1/2 or less
All sample banks	100	88	88	<u>1/</u>	12	11	1
Size group (total deposits in \$ million)							
Less than 10	100	74	73	1	26	25	1
10-50	100	89	89	--	11	10	1
50-100	100	90	90	--	10	9	--
100-500	100	93	93	--	7	7	<u>1/</u>
500-1,000	100	100	100	--	--	--	--
1,000 and over	100	98	98	--	2	2	--
Federal Reserve District							
Boston	100	88	88	--	12	12	--
New York	100	90	89	1	10	9	1
Philadelphia	100	75	75	--	25	24	1
Cleveland	100	87	87	--	13	12	1
Richmond	100	89	88	1	11	10	1
Atlanta	100	96	95	1	4	4	--
Chicago	100	89	89	--	11	10	1
St. Louis	100	79	79	--	21	21	--
Minneapolis	100	75	73	2	25	25	--
Kansas City	100	94	94	--	6	6	--
Dallas	100	80	80	--	20	20	--
San Francisco	100	93	93	--	7	7	--

1/ Less than 0.5 per cent.

NOTE: Excludes banks that did not offer an instrument of the type indicated.

Table 3

SINGLE MATURITY TIME DEPOSITS IN DENOMINATIONS OF LESS THAN \$100,000
 WITH MATURITIES OF 2 YEARS AND OVER: MAXIMUM RATES PAID
 BY MEMBER BANKS, FEBRUARY 2, 1970
 (Percentage of sample banks in each specified group)

Group	All sample banks	Banks raising rate since January 21, 1970				Banks not raising rate		
		Total	Maximum rate (per cent)			Total	Maximum rate (per cent)	
			5-3/4	5-1/2	5 or less		5	4-1/2 or less
All sample banks	100	91	91	<u>1/</u>	<u>1/</u>	9	9	<u>1/</u>
Size group (total deposits in \$ million)								
Less than 10	100	82	80	1	1	18	17	1
10-50	100	92	91	1	--	8	8	<u>1/</u>
50-100	100	94	93	1	--	6	6	--
100-500	100	93	93	--	--	7	7	--
500-1,000	100	100	100	--	--	--	--	--
1,000 and over	100	98	96	2	--	2	2	--
Federal Reserve District								
Boston	100	91	91	--	--	9	9	--
New York	100	93	91	1	1	7	6	1
Philadelphia	100	76	73	3	--	24	23	1
Cleveland	100	88	88	--	--	12	12	--
Richmond	100	94	90	2	2	6	6	--
Atlanta	100	96	96	--	--	4	4	--
Chicago	100	96	96	--	--	4	4	--
St. Louis	100	83	81	1	1	17	17	--
Minneapolis	100	80	80	--	--	20	20	--
Kansas City	100	98	98	--	--	2	2	--
Dallas	100	85	85	--	--	15	15	--
San Francisco	100	97	97	--	--	3	3	--

1/ Less than 0.5 per cent.

NOTE: Excludes banks that did not offer an instrument of the type indicated.